

**FOURTEENTH DAY**

(Thursday, February 2, 1967)

The Senate met at 10:30 o'clock a.m., pursuant to adjournment, and was called to order by the President.

The roll was called and the following Senators were present:

Aikin	Jordan
Bates	Mauzy
Blanchard	Moore
Brooks	Patman
Christie	Ratliff
Cole	Reagan
Connally	Schwartz
Grover	Strong
Hall	Wade
Harrington	Word

Absent—Excused

Hardeman	Watson
Parkhouse	

Absent

Bernal	Herring
Berry	Hightower
Creighton	Kennard
Hazlewood	Wilson

The President announced that there was not a quorum of the Senate present but that Senators Parkhouse, Hardeman and Watson had requested that they be excused for the day because of important business.

**Motion to Adjourn**

Senator Word moved that the Senate stand adjourned until 10:30 o'clock a.m. on Monday, February 6, 1967, subject to the Joint Session to be held today to hear the address of Governor John Connally.

**Joint Session**

(To hear address of Governor John Connally)

The President of the Senate and the Senators present escorted by the Sergeant-at-Arms and the Secretary of the Senate proceeded to the Hall of the House of Representatives at 11:00 o'clock a.m. to hear the address of the Honorable John Connally, Governor of Texas, pursuant to the provisions of H. C. R. No. 19.

The Senators were announced and were admitted and escorted to seats prepared for them along the aisle.

The President on invitation of the Speaker, occupied a seat on the Speaker's Platform.

The President called the Senate to order and announced a quorum of the Senate present.

The Honorable Ben Barnes, Speaker of the House of Representatives, called the House to order, stated the purpose of the Joint Session and announced a quorum of the House present.

The Honorable John Connally, Governor of the State of Texas, was announced by the Doorkeeper of the House.

The Governor's party was escorted to the Speaker's Rostrum by Senators Hazlewood, Moore, Hall, Mauzy and Blanchard, on the part of the Senate, and Representatives McLaughlin, Traeger, Moore of Dallas, Caldwell, Doran, Longoria, Pickett, Neugent of Galveston, Hendricks of Collin and Clark of Harris, on the part of the House.

The Speaker, the Honorable Ben Barnes presented His Excellency, the Honorable John Connally, Governor of Texas, to the Joint Session.

Governor Connally then addressed the Joint Session as follows:

To the Members of the Sixtieth Legislature:

I am grateful for your invitation to again appear before you to propose the means by which I believe we should carry out the extensive program which was submitted to you some two weeks ago.

In my initial message, I outlined what I considered to be a comprehensive, progressive program for the people of our State, not only for the next two years, but reaching forward into the years that lie ahead.

I suggested that our destiny is unlimited as to the improvements that can be made in our way of life here in Texas—and that we ourselves are perfectly capable of making them.

I stated in my initial message that the sum total of my recommendations will exceed available revenue. I did not at that time suggest how we should go about raising the required additional funds. But I did say that I would recommend the revenue measures needed to cover all of my

spending program for the 1968-1969 biennium.

During the next biennium, my budget to finance the judiciary, health, hospitals and special schools, departments and agencies, public and higher education and legislative expenses totals \$907,971,637. In addition, I have proposed emergency appropriations totaling \$6,384,444.

Further I have recommended special appropriations for the State's share of a driver education program, totaling \$3.5 million for the biennium, and a five per cent increase in the salaries of public school teachers and other professional school personnel. Including the added cost of teacher retirement this will require an additional \$50,728,776 for the next biennium. Coupled with an increase in teacher salaries, I endorse a recommendation by the State Board of Education to improve the economic index as a tool for determining local school districts' share of the Foundation Program.

I therefore propose that Texas enact a Real Estate Transfer Report for each sale of real property. It is essential that such a report be adopted to replace the Federal Documentary Tax Stamp requirement which expires January 1, 1968. Without this information our whole system of property assessment will be seriously weakened. Eighteen other states have already adopted a replacement for the Federal tax stamp, and most of the others are expected to act on the matter this year.

To implement the Texas Research League Recommendations concerning metropolitan government, I have recommended funds totaling \$2,974,708 for the 1968-1969 biennium.

All of these combined general revenue recommendations total \$971,559,565.

It has been suggested that we can run this State government for the next two years with no new taxes.

To do so we would have to make significant reductions in some areas of governmental spending which are essential if we are to maintain our leadership in providing the necessary services to the people of Texas.

Should we fail to recognize that our expanding population, increasing by about 250,000 persons each year, will require additional State services? Should we ignore the growth factor in our public schools which will require us to finance the State's share

of the foundation program to meet an enrollment of over 2.6 million children during the next two years? Do we forget that our junior college enrollment will expand by approximately 40 per cent during the biennium and there will be over 42,000 additional students in our senior colleges and universities during this same period? Should we let the plans for future water needs and pollution control in this State become stagnated for lack of resources to implement plans already made?

In short, should we mark time by being shortsighted in meeting our responsibilities in the major areas of government? I am not ready for this course of action. I know that you are not, either.

Although I have proposed additional expenditures in almost every major field of endeavor, I have still reduced requests made by various State agencies and institutions by over \$440 million from all sources of funds for the 1968-1969 biennium. Furthermore, I have proposed a general revenue fund budget that is \$300 million below agency requests.

To illustrate how economies were effected in the preparation of my budget as it relates to all funds:

—I reduced the requests in the field of public health, mental health and mental retardation and institutions under the Texas Youth Council by \$77 million.

—The requests made by some 70 departments and agencies were pared down by approximately \$188 million.

—In the field of public and higher education, I have trimmed \$180 million off requested appropriations.

Yet I have implemented in every department and agency covered by the State Classification Plan an average pay raise for State employees of approximately 20 percent.

If I had not made these reductions, and had acceded to all requests made by departments, agencies and institutions, and had included the full amount requested for a teacher pay raise by the Texas State Teachers Association, we would be seeking new sources of funds in excess of \$500 million for the next biennium. This would have necessitated a tax bill almost four times as large as the one which I propose.

It has been inferred that the State has something like a \$217 million

"surplus" available for the next two years.

Yet the Legislative Budget Board, in its budget, utilized all of this amount. And while it traditionally is restricted to use of existing revenues even its recommendations (which use all the \$217 million) do not, in my judgment, anticipate many of the essential spending needs.

For example, let me review with you some of the significant differences between my spending proposals and those of the Budget Board.

In the field of Mental Health and Mental Retardation, I have recommended \$4.5 million more than the Legislative Budget Board.

I have recommended \$2.5 million more than proposed by the Board to be expended for new programs and facilities to fight juvenile delinquency.

I have proposed a \$7.5 million state office building not contained in the Budget Board recommendations to house our State agencies more economically.

I have proposed \$24 million in State grants to local communities for water treatment facilities and \$4 million in planning grants for sewage treatment plants not recommended by the Board.

I have recommended \$3.5 million more than the Board to the Department of Public Safety for additional highway patrolmen and other personnel.

I have recommended \$7 million more than the Board to fully implement the constitutional amendment for our welfare recipients.

I have recommended \$900,000 more than the Budget Board for expansion of our child welfare program for the neglected, abused and deprived.

I have recommended \$3.5 million more than the Budget Board for junior colleges to meet dramatically increased enrollments.

I have recommended \$32.5 million more than the Budget Board to meet enrollments and continue our program for excellence in our colleges and universities.

I have recommended \$50 million for an increase in pay for the 100,000 public school teachers and professional personnel in our local school systems.

No such recommendation is contained in the Budget Board's proposals.

In my judgment these are critical differences. They are the difference between a vital, progressive State,

and one preoccupied with economy to the point of shortsightedness.

To take these essential, positive steps will require additional general revenue of \$125 million in the next two years.

Obviously, there are varying opinions on sources of such revenue.

Some would impose a corporate and personal income tax. I do not recommend such action.

Some would increase the general rate of the State sales tax. I do not recommend such action.

Some would remove the food and drug exemption in our State sales tax. I do not recommend such action.

And some would increase tuition to our college and university students. I do not recommend such action.

Rather, I have attempted to fashion an equitable plan which will impose the least possible burden upon the individual and business taxpayers of this State. I propose removal of inequities as well as increases in taxes. Some of the taxes I propose will result in a return to rates previously paid in Texas, thus reinstating rates reduced in the past several years. Furthermore, the taxes proposed are not out of line with those imposed in other states.

Specifically, I propose first to bring alcoholic beverages—liquor, wine, beer—under the State sales tax. Under that tax, these commodities presently are taxable only when sold with food for on-premise consumption. They are exempt from the sales tax at all other times. This is a strange provision and one that can never be fully enforced to the letter of the law.

Of 43 states now imposing a sales tax, 30 include alcoholic beverages in the base of their tax in addition to imposing selective taxes on these same commodities that average slightly higher than similar taxes imposed by the State of Texas. Removal of this exemption from the sales tax would impose no great hardship upon our people and, if made effective on July 1, 1967, would add a total of \$26 million to State revenues over the next biennium.

We are all proud of the favorable tax climate which Texas now offers to corporate industry, and we must see that it is retained. Our corporation franchise tax, while substantial for taxes of this type, is modest when

compared to the corporation income taxes used by 37 states.

The present franchise tax rate is \$2.25 per \$1,000 of capital, surplus, undivided profits and debt. This rate was set at \$3.00 for one year (1959) and at \$2.75 for a period of five years thereafter. A rate of \$3.00 per \$1,000 would not put Texas out of line with other states except for one inequity arising from the fact that we include debt in the base of our franchise tax. On the average, debt accounts for just slightly less than 25 per cent of the franchise tax revenue, but it is especially burdensome to some corporations which must operate with relatively high debt levels. It is also burdensome to new corporations which typically begin operations on borrowed money.

I am, therefore, recommending that the rate of the franchise tax be increased to \$3.00 per \$1,000 of capital, surplus and undivided profits, but that the present \$2.25 rate on debt be continued for the first year of the biennium and be reduced to \$2.00 the second year.

I wish the revenue situation were such that I could recommend complete elimination of debt from the franchise tax. This is impractical at this time. It is possible, however, to begin the gradual elimination of the tax on debt. I therefore recommend that beginning the first year of the following biennium, the tax on debt be reduced by 50¢ each year until eliminated. This revenue source will produce about \$31 million for the biennium.

One of our great resources is natural gas, and a large percentage of this gas is exported from Texas. It is obvious from several past failures that it is impossible to tax only that portion of the gas which is exported and stay within the confines of the interstate commerce clause of the Federal Constitution. In the past, natural gas has paid a tax in Texas in excess of the present seven per cent rate on wellhead value. In 1954, the rate was nine per cent and in 1955, it was eight per cent. I propose that we return to the eight per cent rate of a decade ago. At the same time we should note that there is an inequity in this tax arising from the attempt to apply the tax to gas which is used on the lease where it is produced. No other major producing state attempts to tax lease-use gas and the

State Comptroller has publicly recommended that such gas be exempt in Texas because of the administrative problems it creates. Your committee on State and Local Tax Policy recommended exemption of lease-use gas in 1965, and it is my understanding that a similar recommendation is being made this year. I endorse this recommendation. An increase in the rate of the gas production tax from seven to eight per cent, offset by the exemption of lease-use gas effective on July 1, 1967, will add about \$18 million to our biennial resources.

As Texans, we take justifiable pride in the fact that our State Highway System is the best in the nation, even though our State gasoline tax of 5¢ per gallon, which supports this system, is among the five lowest in the nation. An increase to six cents per gallon, which I now recommend, would still leave us with a rate lower than that in effect in 30 states. If such an increase is made effective July 1, the revenue available for the next biennium would aggregate \$97.6 million. Of this total, one-fourth, or \$24.4 million, will constitutionally flow to the Available School Fund where it can be utilized to help meet the cost of the supplemental teacher pay increase, which I have proposed.

The remaining \$73.2 million would go into the State Highway Fund, of which \$24.4 million is dedicated by law to farm-to-market roads. The other \$48.8 million will be available for use at the discretion of the Highway Commission.

Our farm-to-market road program began in 1949 with the passage of the Colson-Briscoe Act, which provided for an automatic allocation of \$15 million a year from general tax resources to the construction of so-called "land service" roads.

Later, a portion of the gasoline tax also was dedicated to the farm-to-market road program. Over the years the gasoline tax has become the major source of support of the farm-to-market road program, and currently provides in excess of \$50 million a year for this purpose.

Combined with the Colson-Briscoe Act and Federal funds, we are now spending over \$75 million a year on these roads. We now have more than 35,000 miles of farm-to-market roads.

Therefore, I recommend the repeal of the Colson-Briscoe Act and the automatic allocation of \$15 million a year made under it. This will increase the resources of our general revenue fund by \$30 million in the next biennium. This will have no appreciable effect on the farm-to-market road program and at the discretion of the Highway Commission need not affect it at all.

In summary, my revenue recommendations to this point will produce an additional \$129.2 million in general revenue funds in the next biennium.

In addition, as a part of my total spending program, but distinct from general revenue needs I have previously outlined, I recommend increased expenditures totaling approximately \$19 million for public assistance and medical care.

In 1963, the people of Texas adopted an amendment to the Constitution authorizing the expenditure of up to \$60 million per year for public assistance. Appropriations for assistance grants were increased by the 59th Legislature but fell significantly below the amount authorized by the Constitutional Amendment.

I recommend that we increase our expenditures for public assistance to the needy aged, the blind, families with dependent children, and the permanently and totally disabled to the full amount authorized by the people of this State. This recommendation requires \$15,302,122 in additional State funds for the 1968-1969 biennium.

Further, I am recommending that proper medical care be provided for all recipients of public assistance under Title 19 of the Federal Social Security Act. The provision of this care will require additional State spending of \$3,756,050 during the biennium.

In summary, the recommended increase in welfare grants and implementation of Title 19 total \$19 million for the 1968-1969 biennium.

These additional welfare expenditures, coupled with the general revenue needs which I have outlined for you, will bring the total of necessary new revenue to some \$144 million—about \$15 million more than the \$129.2 million in new revenue which I have already outlined.

I think it should be apparent to you that we have reached a place in time where we must re-evaluate our

position as one of the leading, most progressive and fastest-growing states in the nation. We have reached a time when we must look toward broadening the economic base of Texas.

Talk of taxes is never pleasant, but this procedure will be with us from now on—demands for more State services will continue to expand as we continue to grow and keep pace with the changing times. Texas is a land of industrial expansion. Tourism is on the move. Texas has come of age.

Consequently, we must look to the future and find even more new sources of revenue.

Therefore, in order to balance the budget for the coming biennium and retain an equitable tax structure, I propose legalizing by local option the sale of liquor by the drink—distilled spirits and wine—under strict regulation. I propose this action not only as a means of raising the needed revenue, but as a means of correcting a situation which has existed in our State for many years—the subterfuge under which so-called private clubs presently are circumventing the law and serving liquor by the drink to the general public.

It is time to bring this matter into the open. It is my considered opinion that a far more wholesome climate will prevail if liquor can be sold by the drink, legally and under tight regulation.

I propose that operators of establishments thus selling liquor be required to comply with a rigid set of standards or lose their licenses. In this regard, I propose that the privilege to operate an establishment selling liquor, whether by drink or by bottle, be suspended for period of six months for serving a minor and revoked forever for the second such offense. The burden of identifying a minor must necessarily rest with the operator of the establishment, but as part of my traffic safety program, I am recommending the adoption of a tamper-proof driver's license, including a color photograph of the holder, which should greatly alleviate this problem. I recommend a special colored license to identify minors.

I further propose, as an added incentive to strict compliance with regulations, an annual license fee of \$2,000, of which \$1,000 will go to the State, \$500 to the county, and \$500 to the city.

To bring into balance our spending and revenue-raising program for the coming two-year period, I recommend a tax of five cents per ounce be levied on distilled spirits to be sold by the drink.

The most conservative estimate indicates it will yield more than enough revenue to cover the extra \$15 million needed to balance the budget during the next biennium.

The revenue measures that I have proposed will generate an additional \$144.2 million in general revenue to the State for the 1968-1969 biennium, and will again produce a balanced budget, just as we provided two years ago and four years ago.

I pointed out earlier that I have submitted budgetary recommendations to you only after exercising economy to the fullest degree that my conscience will condone—cuts totaling \$300 million from the general revenue fund.

In my judgment, no other action we

take in these chambers more urgently deserves the statesmanship we possess than that of facing up to the responsibilities of financing the needs of our people.

The requests for public funds sometimes seem unending. The appetite of government may appear insatiable.

And yet the growth in demand for governmental services is the inevitable by-product of a vibrant and growing State.

To give all that is asked is extravagance.

But to provide less than substantiated need is irresponsibility.

It is not easy for me to recommend new taxes of any kind. And it is not easy for you to vote to impose taxes.

But to be worthy of the trust that is ours, the alternative for me was unacceptable.

I hope that it will be for you.

Thank you.

### SUMMATION OF REVENUE SOURCES

#### 1968-1969 Biennium

1. Repeal the Exemption of Alcoholic Beverages from the Sales Tax (Effective July 1, 1967)	\$26,025,007
2. Increase the Franchise Tax to \$3 per \$1000 of Capital and Surplus with gradual reduction of the tax on debt	30,923,118
3. Increase the Natural Gas Tax from 7 to 8% exempting lease-use gas (net) (Effective July 1, 1967)	17,850,278
4. Increase the Motor Fuel Tax to 6¢ per gallon ¼ constitutionally allocated to the Available School Fund ¾ to the State Highway Fund—\$73.2 million (Effective July 1, 1967)	24,415,219
5. Repeal of the Colson-Briscoe Act which allocates \$30 million each biennium to Farm-to-Market Roads	30,000,000
6. Tax on distilled spirits and wine by the drink based on local option. Estimated to be	15,000,000
Total additional revenue (general revenue and affected funds)	<u>\$144,213,622</u>

### Adjournment

The President announced that the purpose of the Joint Session having been concluded, declared the Senate at 11:35 o'clock a.m. adjourned until 10:30 o'clock a.m. on Monday, February 6, 1967, in accordance with a motion previously adopted in the Senate.

### APPENDIX

#### Sent to the Governor

February 2, 1967

S. C. R. No. 8

S. C. R. No. 10

S. C. R. No. 11